

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05  
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03  
H-01 PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07  
NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 AGRE-00 /087 W  
-----072079 151928Z /53

R 151556Z JUL 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 2220  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
RUDTC/AMEMBASSY LONDON 3834  
AMEMBASSY MADRID  
AMCONSUL OPORTO  
AMEMBASSY PARIS  
AMCONSUL PONTA DELGADA

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 5482

PASS TREASURY FOR SYVRUD  
BRUSSELS FOR EC

E.O. 11652: N/A  
TAGS: ECON, ELAB, PO, EFIN  
SUBJECT: ECONOMIC DEVELOPMENTS: INDICATORS MIXED

REF: LISBON 5087

SUMMARY. LATEST GOP INDICATORS SHOW FOREIGN TOURISM IS UP,  
ALTHOUGH PROFITABILITY OF HOTELS REMAINS LIMITED. LED BY  
INTERMEDIATE GOODS AND CAPITAL EQUIPMENT INDUSTRIES, OVERALL  
MANUFACTURING OUTPUT IN JAN-FEB. 1977 REGAINED PRE-1974 LEVELS,  
ALTHOUGH SOME INDUSTRIES  
STILL HAD NOT RETURNED TO FORMER PRODUCTION LEVELS. CONSTRUCTION  
WAS UP IN FIRST QUARTER WHILE WHOLESALE AND RETAIL TRADE  
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DROPPED AND TRADE GAP WIDENED. BY VOLUME, EXPORTS ACTUALLY  
DROPPED SLIGHTLY, WHILE IMPORTS ROSE SUBSTANTIALLY IN BOTH  
VOLUME AND VALUE. TRADE AND TOURISM MINISTER CLAIMED THAT  
FOOD PRICE INDEX DROPPED IN JUNE (ALTHOUGH IT WAS UP  
23 PERCENT IN FIRST SIX MONTHS), AND THAT GOP IS DEFENDING  
BUYING POWER OF POOR. PESETA DEVALUATION HAS FUELED SPEC-  
ULATION ON NEW DEVALUATION OF THE ESCUDO. END SUMMARY.

1. MIXED INDICATORS: THE GOP HAS RELEASED THE FOLLOWING ECONOMIC INDICATORS:

-- TOURISM. FOR THE FIRST FIVE MONTHS, TOTAL FOREIGN ARRIVALS ROSE 38.1 PERCENT FROM 1976 PERIOD (TO 935,000), WHILE FOREIGN TOURIST ARRIVALS WERE UP 51.2 PERCENT, TO 399,700. AMERICAN TOURISTS ROSE 67.1 PERCENT OVER 1976 PERIOD. IN FIRST QUARTER OF 1977, NIGHTS SPENT BY FOREIGNERS EXCEEDED LEVELS FOR SAME PERIOD IN 1972 AND 1973. LATEST PLANNING MINISTRY BULLETIN STATES THAT GOP HOPES TO REACH 1973 TOURISM LEVELS BY END OF THE YEAR. HOWEVER, IT NOTES THAT MAJORITY OF HOTELS/ RESTAURANTS ARE NOT ABLE TO OPERATE PROFITABLY BECAUSE OF EXCESS PERSONNEL.

-- MANUFACTURING. ALTHOUGH A NUMBER OF SECTORS HAVE NOT YET REGAINED 1973 PRODUCTION LEVELS, OVERALL OUTPUT IN JANUARY AND FEBRUARY WAS UP 11 PERCENT OVER THE FIRST TWO MONTHS OF 1976, AND HAD REGAINED PRE-1974 LEVEL. THOSE INDUSTRIES PRODUCING INTERMEDIATE GOODS AND CAPITAL EQUIPMENT GENERALLY ROSE, WHILE CONSUMER GOODS INDUSTRIES WERE DOWN, REFLECTING REDUCED INTERNAL PURCHASING POWER. MACHINERY PRODUCTION WAS UP 78 PERCENT, BASE METALS 39 PERCENT, AND ELECTRICAL MACHINERY 16 PERCENT, OVER THE FIRST TWO MONTHS OF 1976 - BUT PRODUCTION HAD STILL NOT REACHED PRE-1974 LEVELS. MEANWHILE, PLASTICS WERE UP 48 PERCENT, RUBBER AND TRANSPORT MATERIAL 30 PERCENT. LIMITED OFFICIAL USE

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CENT, WOOD AND CORK, 23 PERCENT, AND TABACCO 20 PERCENT, WHILE FOODS, TEXTILES AND BEVERAGES WERE DOWN.

-- CONSTRUCTION. IN THE FIRST QUARTER, THE NUMBER OF CONSTRUCTION PERMITS WAS UP 6 PERCENT FROM THE SAME PERIOD OF 1976, WHILE PRODUCTION OF STEEL FOR CONSTRUCTION ROSE 55 PERCENT. IN APRIL CEMENT CONSUMPTION WAS UP 8.5 PERCENT FROM APRIL 1976.

-- COMMERCE. OVERALL WHOLESALE AND RETAIL TRADE DROPPED IN FIRST QUARTER. THE WHOLESALE FIGURE WAS UP ONLY FOR CAPITAL MACHINERY, CONSTRUCTION MATERIAL, AND WOOD AND CORK. CAPITAL MACHINERY IMPORTS, MEANWHILE, ROSE (BY VOLUME) 40 PERCENT, INDICATING SOME CAPITAL INVESTMENT.

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R 151556Z JUL 77  
FM AMEMBASSY LISBON  
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PASS TREASURY FOR SYVRUD  
BRUSSELS FOR EC

-- FOREIGN TRADE. IMPORT COVERAGE BY EXPORTS DETERIORA-  
TED FROM 48 PERCENT IN FIRST QUARTER 1976 TO 46 PERCENT  
IN THE SAME PERIOD OF 1977. IMPORTS AND EXPORTS ROSE IN  
VALUE, RESPECTIVELY, 34 PERCENT AND 29 PERCENT. BY  
VOLUME, IMPORTS WERE UP 12 PERCENT WHILE EXPORTS DROPPED  
1 PERCENT. AVERAGE EXPORT PRICES ROSE SHARPLY -FOR  
TEXTILES AND FOOTWEAR (31 PERCENT OF PORTUGAL'S EXPORTS)  
UP 39 PERCENT, FOR WOOD AND CORK (20 PERCENT OF EXPORTS)  
UP 25 PERCENT, AND FOR AGRICULTURAL PRODUCTS (18 PERCENT  
OF EXPORTS) UP 21 PERCENT.  
-- MONEY AND BUDGET. THE OVERALL MONEY SUPPLY (M2)  
ROSE ONLY BY 3 PERCENT FROM THE FOURTH QUARTER 1976 TO  
THE FIRST QUARTER 1977, WHILE M1, CONTINUED TO FALL.  
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LOANS OUTSTANDING, MEANWHILE, DROPPED SLIGHTLY AND REDIS-  
COUNTING FELL 10 PERCENT. GOVERNMENT RECEIPTS ROSE 22  
PERCENT IN THE FIRST QUARTER OVER THE 1976 PERIOD.

2. FOOD INFLATION SLOWING? IN JULY 13 RADIO-TV ADDRESS  
TRADE AND TOURISM MINISTER MOTA PINTO DOWNPLAYED INFLA-  
TIONARY IMPACT. HE CLAIMED THAT IN JUNE FOOD INDEX  
DROPPED SLIGHTLY, WITH MARKED DECREASE IN SOME FOOD  
PRICES. IN FIRST SIX MONTHS FOOD PRICES ROSE 23 PERCENT,

WITH LARGEST RISE IN MAY (SEE REFTTEL). PINTO SAID THAT GOP'S BASIC MARKET BASKET OF SET OR CONTROLLED PRICES COVERS 30 PERCENT OF FAMILY FOOD EXPENSES, WHILE GOP SPENDS 9 BILLION ESCUDOS (ABOUT \$233 MILLION) TO DEFEND PURCHASING POWER OF LESS FAVORED GROUPS. GOP SPENDS AN EQUAL AMOUNT TO SUSTAIN A SO-CALLED "INDUSTRIAL PRODUCTS BASKET" - E.G. FOR FUEL OIL, DIESEL FUEL, AND KEROSENE. HE ALSO SAID GOP WOULD SOON SET NEW, LOWER MAXIMUM PRICES FOR PORK AND VARIOUS FRUITS, EVEN THOUGH THEY ARE NOT PART OF OFFICIAL MARKET BASKET.

3. SPECULATION ON DEVALUATION. THIS WEEK'S PESETA DEVALUATION HAS FUELED SPECULATION ABOUT A NEW DEVALUATION OF THE ESCUDO. JULY 14 "TEMPO" CLAIMED THE FEBRUARY ESCUDO DEVALUATION WAS ONLY BY 15 PERCENT THROUGH THE IMF RECOMMENDED 30 PERCENT. "TEMPO" FORECAST A "POSSIBLE" FURTHER 15 PERCENT DEVALUATION BY OCTOBER. THE BLACK MARKET RATE FOR ESCUDOS MEANWHILE REPORTEDLY HAS RISEN TO BETWEEN 44 AND 46 ESCUDOS TO THE DOLLAR. THE OFFICIAL DOLLAR BY RATE CLOSED AT 38.463 ESC/DOLLAR ON JULY 14.

4. UNION CLAIMS GOP WILL LIFT LIMITATION ON WAGE INCREASES: FOLLOWING MEETINGS BETWEEN REPRESENTATIVES OF THE "OPEN LETTER" LABOR MOVEMENT AND THE MINISTRY OF LIMITED OFFICIAL USE

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LABOR, THE UNION OFFICIALS ANNOUNCED TO THE PRESS THAT THE GOP IS PREPARING TO WAIVE THE PRESENT 15 PERCENT LIMITATION ON WAGE INCREASES IN SOME CASES. UNION SPOKESMEN SAID THE GOVERNMENT IS PROPOSING THE REMOVAL OF THE 15 PERCENT LIMITATION FOR CONTRACTS SIGNED PRIOR TO DECEMBER 31, 1975 AND IN CERTAIN EXCEPTIONAL CASES, FOR CONTRACTS SIGNED AFTER 1975. LABOR MINISTRY AND OTHER GOP OFFICIALS HAVE REFUSED TO COMMENT ON THE REPORT. PRIVATELY, HOWEVER, THE LABOR MINISTER HAS INDICATED THAT SUCH A MEASURE IS TO BE EXPECTED IN ORDER NOT TO IMPOSE AN UNDUE BURDEN ON SOME SECTORS OF THE LABOR FORCE. ALLOWING THE ANNOUNCEMENT TO COME THROUGH THE "OPEN LETTER" MOVEMENT IS ONE WAY OF BOLSTERING THIS NON-COMMUNIST LABOR GROUP.

5. COMMENT: THE FIRST QUARTER FOREIGN TRADE FIGURES ARE WORRISOME, ESPECIALLY AS SEVERAL GOP OFFICIALS HAVE TOLD US THE SITUATION HAS CONTINUED TO DETERIORATE SINCE THEN. SOME OF THE MACRO-ECONOMIC INDICATORS GIVE CAUSE FOR OPTIMISM, ESPECIALLY CAPITAL GOODS IMPORTS AND THE PRODUCTION OF INTERMEDIATE AND CAPITAL GOODS.  
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## Message Attributes

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